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SUBJECT: CHINESE CIVIL AVIATION: PLANNING FOR THE FUTURE IN SOUTH CHINA

¶1. (U) Summary: An early-November agreement on direct charter flights between Taiwan and mainland China will have a negative effect on the number of passengers transiting Macau, according to aviation experts gathered for Zhuhai's biannual Airshow China at the 2008 Guangdong-Hong Kong-Macau-Taiwan (GHMT) Aviation Industries Forum on civil aviation development. The ability of Taiwan's tourism infrastructure to absorb increasing numbers of mainland tourists remains a concern to aviation policy experts. Improving access to air travel in China's north, center and west will require new airports and better coordination between regionally co-located airports. Tight military control and a dearth of pilots continue to constrain Chinese civil aviation, according to an industry representative. End summary.

Cross-Straits Agreement Important, but not Satisfactory  
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¶2. (U) The November 4 agreement to permit direct charter flights between Taiwan and the Mainland was "important, but not satisfactory," according to Chinese Aviation Industries Education Foundation Chairman Chang Kuocheng, who said there remained much work to be done. At the early November forum in Zhuhai, he said improved communication among cross-strait organizations was an important factor leading to the agreement. However, Chang commented that Taiwan's tourism infrastructure -- which, he said, is not as developed as the island's overall economy, a theme we have heard repeatedly in south China, from real estate magnets as well as travel experts -- was a constraint that needed to be addressed if Taiwan were to take advantage of increased numbers of tourists from the mainland. As one example, Chang said that Taoyuan Airport (note: formerly Chiang Kai Shek International Airport) was "every [airline's] favorite in Taiwan," claiming that none of the island's other airports was a viable alternative from a logistics and infrastructure perspective.

¶3. (U) Direct flights could potentially have a dire effect on Macau's airport, according to Hong Kong-Zhuhai Airport Management Company President Cheng Weiman. Cheng said that, even before the November 4 agreement, the number of passengers using Macau to transit between Taiwan and the Mainland had fallen from 80 percent of passenger volume to 39 percent, without any significant increase in other traffic.

General Aviation Lags Behind  
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¶4. (U) China's civil aviation development is uneven and insufficient, according to Civil Aviation Administration of China (CAAC) Vice Minister Wang Changshun. Wang said that plans to increase the number of China's airports to 240 by 2020 would improve service to the country's west, center and north. Under the planned expansion, up to 80 percent of the population -- "including those living in rural and poor areas" -- would have access to air travel. (Note: Wang was clearly referring to geographic, not financial

access; no mention was made of radically altering ticket pricing schemes to provide more access for the less wealthy.) Wang added that better coordination on regional airport development was needed to equitably distribute international and domestic flights among airports in the same region. (Comment: a number of China's airports already operate at a loss, which could result in industry resistance to the planned expansion. Embassy Beijing notes that the government may be requiring airlines to open potentially unprofitable routes to remote and underserved areas as a quid pro quo for permission to open other, more popular and lucrative routes elsewhere. End comment.)

#### Zhuhai as a Center for General Aviation Support?

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15. (U) A dearth of pilots and tight military control remain major obstacles to the development of Chinese civil aviation, according to China Aviation Industry Corporation President for General Aviation Tan Weidong. Tan said that the country's 1000 general aviation pilots -- which he compared to 400,000 in the United States -- lacked leadership and management experience. Nonetheless, Tan characterized the future of civil aviation in China as "promising," predicting that 2008 revenues of RMB 15 billion (about USD 2.2 billion) would increase to RMB 60 billion by 2015 and double again to RMB 120 billion by 2020. Tan said plans were in the works to establish a general aviation base in Zhuhai that would serve as both a headquarters and research center.

16. (SBU) Lufthansa General Manager for Hong Kong, Taiwan and Macau Michael Suesser said he thought that Zhuhai had done a good job positioning itself as a center for aviation research and pilot training, but that any hope of becoming the Pearl River Delta's "third hub" -- after Guangzhou and Hong Kong -- was completely

unrealistic. Suesser noted that Lufthansa had no plans to expand its operations into Zhuhai for the foreseeable future.

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